

**VILLAGE OF CHATHAM, MICHIGAN**  
**FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2004**

## AUDITING PROCEDURES REPORT

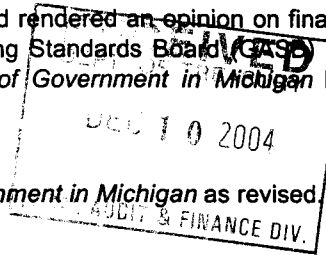
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Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Chatham	County Alger
Audit Date 6/30/04	Opinion Date 9/24/04	Date Accountant Report Submitted to State: 10/31/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Anderson, Tackman & Co, PLC			
Street Address 102 W. Washington St. Suite 109	City Marquette	State MI	ZIP 49855
Accountant Signature <i>Michael A. [Signature]</i> CPA			

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# ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITORS' REPORT

Honorable President and Members of  
The Village Board of Trustees  
Village of Chatham, Michigan  
P.O. Box 167  
Chatham, Michigan 49816

We have audited the financial statements of the governmental activities, business-type activities, major funds, and remaining fund information, which collectively comprise the basic financial statements of the Village of Chatham, Michigan as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the report of the other auditors, provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, major funds and remaining fund information of the Village of Chatham, Michigan at June 30, 2004, and the changes in financial position and cash flows, where applicable, of those activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Village of Chatham, Michigan has implemented a new financial reporting model as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2004.

The Management's Discussion and Analysis and budgetary comparison information is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Honorable President and Members of the Village Board of Trustees  
Village of Chatham, Michigan

In accordance with *Government Auditing Standards*, we have also issued a separate report to management dated September 24, 2004 on our consideration of the Village of Chatham, Michigan's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the Village of Chatham, Michigan's basic financial statements taken as a whole. The combining and individual fund statements and schedules as listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Village of Chatham, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

September 24, 2004

## Village of Chatham, Michigan

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Village of Chatham's financial performance provides an overview of the Village's financial activities for the year ended June 30, 2004. Please read it in conjunction with the financial statements, which begin on page 11.

#### FINANCIAL HIGHLIGHTS

- The Village's net assets were reported for the first time under GASB 34. As such, no comparisons with prior years will be made. In future years, comparative information will be presented in various schedules throughout the MD&A.
- Net assets for the Village as a whole decreased by \$29,214 as a result of this year's operations. Net assets of our business-type activities decreased by \$51,835, or 4 percent, and net assets of our governmental activities increased by \$22,621, or 9 percent.
- During the year, the Village had expenses for governmental activities that were \$75,030 which is more than the \$49,327 generated in program revenue sources.
- During the year, the Village had expenses for business-type activities that were \$128,250 which is more than the \$75,189 generated in program revenue sources.
- The General Fund reported a net fund balance of \$31,374. This is \$3,134 higher than the forecasted no change of \$-0-.

#### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 11 and 12) provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements start on page 13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for the future spending. Fund financial statements also report the Village's operations in more detail than the government-wide statements by providing information about the Village's most significant funds. The remaining statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside the government.

#### **Reporting the Village as a Whole**

Our analysis of the Village as a whole begins on page 6. One of the most important questions asked about the Village's finances is "Is the Village as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Village as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Village's *net assets* and changes in them. You can think of the Village's net assets - the difference between assets and liabilities - as one way to measure the Village's financial health, or *financial position*. Over time, *increases or decreases* in the Village's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Village's patron base and the condition of the Village's capital assets, to assess the *overall financial health* of the Village.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

In the Statement of Net Assets and the Statement of Activities, we divide the Village into two kinds of activities:

- **Governmental Activities** – Most of the Village's basic services are reported here, including the legislative, elections, public safety, public works, recreation and culture, community and economic development and general services and administration. Property taxes, charges for services and state sources fund most of these activities.
- **Business-Type Activities** – The Village charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Village's Water System and Sewer System activities are reported here.

### Reporting the Village's Most Significant Funds

Our analysis of the Village's major funds begins on page 8. The fund financial statements begin on page 13 and provide detailed information on the most significant funds – not the Village as a whole. Some funds are required to be established by State law and by bond covenants. However, the Village Board establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using taxes, grants, and other money. The Village's two kinds of funds - *governmental* and *proprietary* - use different accounting approaches.

- **Governmental funds** – Most of the Village's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term* view of the Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.
- **Proprietary funds** – When the Village charges customers for the services it provides – whether to outside customers or to other units of the Village – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the Village's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the Village's other programs and activities.

### The Village as a Whole

Table I provides a summary of the Village's net assets as of June 30, 2004.

Table 1  
Net Assets

	Governmental Activities - 2004	Business-Type Activities - 2004	Total Primary Government – 2004
Current and other assets	\$194,646	\$ 106,856	\$ 301,502
Capital assets, net	85,050	1,367,619	1,452,669
Total Assets	279,696	1,474,475	1,754,171

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNEDITED) (Continued)**

	Governmental Activities - 2004	Business-Type Activities - 2004	Total Primary Government - 2004
Current liabilities	\$ 2,200	\$ 9,569	\$ 11,769
Non-current liabilities	-	193,000	193,000
Total Liabilities	<u>2,200</u>	<u>202,569</u>	<u>204,769</u>
Net Assets:			
Invested in capital assets, net of related debt	83,607	1,172,619	\$1,256,226
Restricted	-	44,190	44,190
Unrestricted (deficit)	193,889	55,097	248,986
Total Net Assets	<u>\$277,496</u>	<u>\$1,271,906</u>	<u>\$1,549,402</u>

Net assets of the Village's governmental activities stood at \$277,496. *Unrestricted* net assets—the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$193,889.

The \$193,885 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The net assets of our business-type activities stood at \$1,271,906. The Village can generally only use these net assets to finance continuing operations of the Water System and Sewer System operations.

The results of this year's operations for the Village as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2004. Since this is the first year the Village has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2003 is not available.

Table 2  
Change in Net Assets

	Governmental Activities - 2004	Business-Type Activities - 2004	Total Primary Government - 2004
<b>Revenues</b>			
Program Revenues:			
Charges for services	\$5,198	\$56,002	\$61,200
Operating Grants and Contributions	44,130	19,187	63,317
General Revenues:			
Property taxes	18,569	-	18,569
State Sources	28,007	-	28,007
Interest and Miscellaneous	1,747	1,226	2,973
Total Revenues	<u>97,651</u>	<u>76,415</u>	<u>174,066</u>
<b>Program Expenses:</b>			
Legislative	2,275	-	2,275
Elections	1,060	-	1,060
General Services and administration	28,534	-	28,534



# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

	Governmental Activities - 2004	Business-Type Activities - 2004	Total Primary Government - 2004
Public Safety	\$ 632	\$ -	\$ 632
Public Works	27,096	-	27,096
Other	15,433	-	15,433
Water system	-	95,671	95,671
Sewer system	-	32,579	32,579
Total Expenses	75,030	128,250	203,280
Increase (decrease) in net assets	22,621	(51,835)	(29,214)
Net assets, beginning, as restated	254,875	1,323,741	1,578,616
Net Assets, Ending	\$277,496	\$1,271,906	\$1,549,402

The Village's total revenues were \$174,066. The total cost of all programs and services was \$203,280, leaving a decrease in net assets of \$29,214. Our analysis below separately considers the operations of governmental and business-type activities:

## Governmental Activities

### General Fund

In our General Fund, income was \$5,396 more than budgeted due to increased revenue sharing. Expenses were up \$3,142 due to immaterial expenses, for an increase in revenue of \$2,254.

### Major Road Fund

In our Major Road Fund, we are saving funds for future projects.

### Local Road Fund

In our Local Road Fund, we are saving funds for future projects.

### Other Governmental Activity Funds (Liquor Law Fund)

In our Liquor Law Fund we expend the amount received from the State.

## Business-type Activities

### Water System Fund

In our Water Fund, user rates are not keeping with expenditures.

### Sewer System Fund

In our Wastewater Fund, user rates are not keeping up with expenses.

### Internal Service Funds (Motor Vehicle and Equipment Fund)

Our motor Vehicle and Equipment Fund basically stayed the same.

## THE VILLAGE'S FUNDS

As the Village completed the year, its governmental funds (as presented in the balance sheet on page 13 reported a *combined* fund balance of \$189,121 an increase of \$18,070 from the beginning of the year.

The major reason the decrease in net assets is due to the fact that user rates are not covering the operational expenses in the Water and Sewer System operations.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

### General Fund Budgetary Highlights

Over the course of the year, the Village Board revised the budget a few times.

Budget amendments were not done during the year due to simple oversight. Due to GASB 34 compliance, we had to accrue an extra two months of revenue sharing, showing an increase of \$5,400, which is roughly our overall difference. Expenses are up \$2,000 over budget due to all departments being immaterially over budget.

With these adjustments, actual charges to expenditures were \$2,214, more than the final amended budget. Conversely, revenues were \$5,348 more than the final budget projection.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At the end of fiscal 2004, the Village had \$1,452,669 invested in a variety of capital assets including land and improvements, buildings and improvements, and other equipment. (See table 3 below)

Table 3  
Capital Assets at Year-End (Net of Depreciation)

	Governmental Activities - 2004	Business-Type Activities - 2004	Totals - 2004
Land	\$ 1,000	\$ 6,225	\$ 7,225
Land improvements	-	-	-
Buildings and improvements	70,550	1,355,904	1,426,454
Equipment and furnishings	13,500	5,490	18,990
TOTALS	<u>\$85,050</u>	<u>\$1,367,619</u>	<u>\$1,452,669</u>

The Water System Fund made major repairs to their Water Tower during the year. Otherwise, there were no other capital additions and no capital disposals.

#### Debt

At year-end, the Village had \$196,443 in bonds and notes outstanding as depicted in Table 5 below.

Table 5  
Outstanding Debt at Year-End

	Governmental Activities - 2004	Business-Type Activities - 2004	Totals - 2004
Revenue Bond	\$ -	\$197,000	\$197,000
Building Note	1,443	-	1,443
TOTALS	<u>\$1,443</u>	<u>\$197,000</u>	<u>\$198,443</u>

There were no new additions to debt for this year and further details on long-term debt can be found in the Footnotes to the Financial Statements.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

In preparing the Village's budget for the year ending June 30, 2005, the Village considered the following issues:

A Local Roads project for \$3,500 was put on hold. We foresee an increase in water and sewer rates by 11%. Water expenses are down \$20,000 due to not having the tank painted or inspected this year. Due to state mandated testing, expenses for water and wastewater will increase by 56%.

### **CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village of Chatham, P.O. Box 167, Chatham, MI 49816.

Village of Chatham, Michigan

STATEMENT OF NET ASSETS

June 30, 2004

	Primary Government		
	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and investments	\$ 179,539	\$ 101,314	\$ 280,853
Receivables (net)	15,107	5,542	20,649
<b>TOTAL CURRENT ASSETS</b>	<b>194,646</b>	<b>106,856</b>	<b>301,502</b>
Non-current assets:			
Land and construction in progress	-	-	-
Other capital assets	134,378	2,329,360	2,463,738
Accumulated depreciation	(49,328)	(961,741)	(1,011,069)
Total Capital Assets	85,050	1,367,619	1,452,669
<b>TOTAL NON-CURRENT ASSETS</b>	<b>85,050</b>	<b>1,367,619</b>	<b>1,452,669</b>
<b>TOTAL ASSETS</b>	<b>279,696</b>	<b>1,474,475</b>	<b>1,754,171</b>
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts payable	-	-	-
Accrued liabilities	757	3,588	4,345
Deferred revenue	-	-	-
Current portion of bonds payable	1,443	2,000	3,443
Other current liabilities	-	3,981	3,981
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,200</b>	<b>9,569</b>	<b>11,769</b>
Non-current Liabilities:			
Compensated absences	-	-	-
Bonds payable	-	193,000	193,000
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>-</b>	<b>193,000</b>	<b>193,000</b>
<b>TOTAL LIABILITIES</b>	<b>2,200</b>	<b>202,569</b>	<b>204,769</b>
<b>NET ASSETS</b>			
Invested in capital assets net of related debt	83,607	1,172,619	1,256,226
Restricted for:			
Debt Service	-	44,190	44,190
Unrestricted	193,889	55,097	248,986
<b>TOTAL NET ASSETS</b>	<b>\$ 277,496</b>	<b>\$ 1,271,906</b>	<b>\$ 1,549,402</b>

The accompanying notes are an integral part of these financial statements.

Village of Chatham, Michigan

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2004

Function / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business Type Activities	Total
<b>Primary Government:</b>							
Governmental Activities:							
Legislative	\$ 2,275	\$ -	\$ -	\$ -	\$ (2,275)	\$ -	\$ (2,275)
Elections	1,060	-	-	-	(1,060)	-	(1,060)
General services and administration	28,534	-	-	-	(28,534)	-	(28,534)
Public safety	632	-	632	-	-	-	-
Public works	27,096	5,198	43,498	-	21,600	-	21,600
Community and economic development	-	-	-	-	-	-	-
Recreation and culture	-	-	-	-	-	-	-
Other	15,433	-	-	-	(15,433)	-	(15,433)
Total Governmental Activities	75,030	5,198	44,130	-	(25,702)	-	(25,702)
Business Type Activities:							
Water Fund	32,579	15,877	-	-	-	(16,702)	(16,702)
Sewer Fund	95,671	40,125	19,187	-	-	(36,359)	(36,359)
Total Business Type Activities	128,250	56,002	19,187	-	-	(53,061)	(53,061)
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 203,280</b>	<b>\$ 61,200</b>	<b>\$ 63,317</b>	<b>\$ -</b>	<b>(25,702)</b>	<b>(53,061)</b>	<b>(78,763)</b>
<b>General Revenues:</b>							
Taxes					18,569	-	18,569
Unrestricted State sources					28,007	-	28,007
Interest and investment earnings					1,555	1,226	2,781
Miscellaneous					192	-	192
Transfers					-	-	-
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>					<b>48,323</b>	<b>1,226</b>	<b>49,549</b>
<b>CHANGE IN NET ASSETS</b>					<b>22,621</b>	<b>(51,835)</b>	<b>(29,214)</b>
Net assets, beginning of year, as restated					254,875	1,323,741	1,578,616
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 277,496</b>	<b>\$ 1,271,906</b>	<b>\$ 1,549,402</b>				

The accompanying notes are an integral part of these financial statements.

Village of Chatham, Michigan

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2004

	General Fund	Major Road Fund	Local Road Fund	Non-Major Governmental Funds (Liquor Law Fund)	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 22,963	\$ 105,325	\$ 45,726	\$ -	\$ 174,014
Receivables	9,168	3,754	2,185	-	15,107
Due from other funds	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 32,131</b>	<b>\$ 109,079</b>	<b>\$ 47,911</b>	<b>\$ -</b>	<b>\$ 189,121</b>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>LIABILITIES:</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued payroll and related	757	-	-	-	757
Deferred revenue	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>757</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>757</b>
<b>FUND BALANCE:</b>					
Unreserved, reported in:					
General Fund	31,374	-	-	-	31,374
Major Road Fund	-	109,079	-	-	109,079
Local Road Fund	-	-	47,911	-	47,911
Liquor Law Fund	-	-	-	-	-
<b>TOTAL FUND BALANCE</b>	<b>31,374</b>	<b>109,079</b>	<b>47,911</b>	<b>-</b>	<b>188,364</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 32,131</b>	<b>\$ 109,079</b>	<b>\$ 47,911</b>	<b>\$ -</b>	<b>\$ 189,121</b>

The accompanying notes are an integral part of these financial statements.

Village of Chatham, Michigan

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS

June 30, 2004

Total Fund Balances for Governmental Funds		\$	188,364
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*Amounts reported for governmental activities in the statement  
of net assets are different because:*

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds

Cost of Capital Assets (General Fixed Asset Account Group)	84,000	
Cost of Capital Assets (Internal Service Funds)	50,378	
Accumulated Depreciation of Assets (General Fixed Asset Account Group)	(12,450)	
Accumulated Depreciation of Assets (Internal Service Funds)	<u>(36,878)</u>	85,050

Long-term liabilities, including bonds payable, are not due and payable  
in the current period and therefore are not reported in the funds.

Current portion of bonds payable	\$	-	
Compensated absences		-	
Bonds payable		<u>1,443</u>	<u>(1,443)</u>

Internal Service Funds are used by management to administer the  
activities of the Motor Vehicle and Equipment Fund. The assets and  
liabilities of the internal service funds are included in the governmental  
activities in the statement of net assets, net of capital assets.

Cost of Capital Assets	(50,378)	
Accumulated Depreciation	36,878	
Net Assets	<u>19,025</u>	<u>5,525</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$</u>	<u>277,496</u>
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The accompanying notes are an integral part of these financial statements.

Village of Chatham, Michigan

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Fiscal Year Ended June 30, 2004

	General Fund	Major Road Fund	Local Road Fund	Non-Major Governmental Funds (Liquor Law Fund)	Total Governmental Funds
<b>REVENUES:</b>					
Taxes	\$ 18,569	\$ -	\$ -	\$ -	\$ 18,569
Licenses and permits	-	-	-	-	-
State sources	28,007	26,748	16,750	632	72,137
Charges for services	-	-	-	-	-
Interest	230	945	334	-	1,509
Other	192	-	-	-	192
<b>TOTAL REVENUES</b>	<b>46,998</b>	<b>27,693</b>	<b>17,084</b>	<b>632</b>	<b>92,407</b>
<b>EXPENDITURES:</b>					
Current operations:					
Legislative	2,275	-	-	-	2,275
Elections	1,060	-	-	-	1,060
General services and administration	26,459	-	-	-	26,459
Public safety	-	-	-	632	632
Public works	4,887	4,741	11,259	-	20,887
Community and economic development	-	-	-	-	-
Recreation and culture	-	-	-	-	-
Other	1,053	-	-	-	1,053
Capital outlay	8,130	13,841	-	-	21,971
<b>TOTAL EXPENDITURES</b>	<b>43,864</b>	<b>18,582</b>	<b>11,259</b>	<b>632</b>	<b>74,337</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>3,134</b>	<b>9,111</b>	<b>5,825</b>	<b>-</b>	<b>18,070</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers in	-	-	-	-	-
Operating transfers (out)	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN FUND BALANCE</b>	<b>3,134</b>	<b>9,111</b>	<b>5,825</b>	<b>-</b>	<b>18,070</b>
Fund balance, beginning of year	28,240	99,968	42,086	-	170,294
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 31,374</b>	<b>\$ 109,079</b>	<b>\$ 47,911</b>	<b>\$ -</b>	<b>\$ 188,364</b>

The accompanying notes are an integral part of these financial statements.



Village of Chatham, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 18,070

*Amounts reported for governmental activities in the statement  
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$ -	
Depreciation expense	(2,075)	(2,075)

Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets

7,591

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Internal Service Funds are used by management to administer the activities of the Motor Vehicle and Equipment Fund. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets, net of capital assets.

(965)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 22,621

The accompanying notes are an integral part of these financial statements.

Village of Chatham, Michigan

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

June 30, 2004

	Business - Type Activities Enterprise Funds			Governmental Activities
	Sewer System Fund	Water System Fund	Total	Internal Service Funds (Motor Vehicle and Equipment Fund)
<b>ASSETS:</b>				
Current Assets:				
Cash and investments	\$ 32,720	\$ 68,594	\$ 101,314	\$ 5,525
Accounts receivable, net	-	5,542	5,542	-
<b>TOTAL CURRENT ASSETS</b>	<u>32,720</u>	<u>74,136</u>	<u>106,856</u>	<u>5,525</u>
Non-current Assets:				
Capital assets	475,010	1,854,350	2,329,360	50,378
Accumulated depreciation	(286,282)	(675,459)	(961,741)	(36,878)
<b>TOTAL NON-CURRENT ASSETS</b>	<u>188,728</u>	<u>1,178,891</u>	<u>1,367,619</u>	<u>13,500</u>
<b>TOTAL ASSETS</b>	<u>221,448</u>	<u>1,253,027</u>	<u>1,474,475</u>	<u>19,025</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
Water deposits payable	-	3,588	3,588	-
Accrued interest payable	-	3,981	3,981	-
Current portion of long-term debt	-	2,000	2,000	-
<b>TOTAL CURRENT LIABILITIES</b>	<u>-</u>	<u>9,569</u>	<u>9,569</u>	<u>-</u>
Non-current Liabilities:				
Bond payable	-	193,000	193,000	-
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>-</u>	<u>193,000</u>	<u>193,000</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>202,569</u>	<u>202,569</u>	<u>-</u>
<b>NET ASSETS:</b>				
Invested in capital assets net of related debt	188,728	983,891	1,172,619	13,500
Restricted - debt service	-	44,190	44,190	-
Unrestricted	32,720	22,377	55,097	5,525
<b>TOTAL NET ASSETS</b>	<u>\$ 221,448</u>	<u>\$ 1,050,458</u>	<u>\$ 1,271,906</u>	<u>\$ 19,025</u>

The accompanying notes are an integral part of these financial statements.

Village of Chatham, Michigan

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended June 30, 2004

	Business - Type Activities Enterprise Funds			Governmental Activities
	Sewer System Fund	Water System Fund	Total	Internal Service Funds (Motor Vehicle and Equipment Fund)
<b>OPERATING REVENUES:</b>				
Charges for services (net)	\$ 15,877	\$ 40,125	\$ 56,002	\$ 5,198
State sources	-	19,187	19,187	-
Other operating revenue	-	-	-	-
<b>TOTAL OPERATING REVENUES</b>	<b>15,877</b>	<b>59,312</b>	<b>75,189</b>	<b>5,198</b>
<b>OPERATING EXPENSES:</b>				
Operating expenses	20,651	32,954	53,605	4,279
Depreciation	11,928	50,643	62,571	1,930
<b>TOTAL OPERATING EXPENSES</b>	<b>32,579</b>	<b>83,597</b>	<b>116,176</b>	<b>6,209</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(16,702)</b>	<b>(24,285)</b>	<b>(40,987)</b>	<b>(1,011)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Investment income	455	771	1,226	46
Interest expense	-	(12,074)	(12,074)	-
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>455</b>	<b>(11,303)</b>	<b>(10,848)</b>	<b>46</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>(16,247)</b>	<b>(35,588)</b>	<b>(51,835)</b>	<b>(965)</b>
<b>TRANSFERS IN/(OUT)</b>	<b>(20,000)</b>	<b>20,000</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN NET ASSETS</b>	<b>(36,247)</b>	<b>(15,588)</b>	<b>(51,835)</b>	<b>(965)</b>
Net assets, beginning of year	257,695	1,066,046	1,323,741	19,990
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 221,448</b>	<b>\$ 1,050,458</b>	<b>\$ 1,271,906</b>	<b>\$ 19,025</b>

The accompanying notes are an integral part of these financial statements.

Village of Chatham, Michigan

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2004

	Business -Type Activities Enterprise Funds			Governmental Activities Internal Service Funds (Motor Vehicle and Equipment Fund)
	Sewer System Fund	Water System Fund	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from fees and charges for services	\$ 15,877	\$ 43,026	\$ 58,903	\$ 5,198
Other operating revenues	-	19,187	19,187	-
Cash payments to employees for services	(6,740)	(10,238)	(16,978)	-
Cash payments to suppliers for goods and services	(13,911)	(22,757)	(36,668)	(4,279)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(4,774)</b>	<b>29,218</b>	<b>24,444</b>	<b>919</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Cash payments for capital assets	-	(57,450)	(57,450)	-
(Increase) decrease in due from funds	1,250	(1,250)	-	-
Transfer in / (out) of other funds	(20,000)	20,000	-	-
Interest payments on bonds	-	(12,074)	(12,074)	-
Principal payments on bonds	-	(16,000)	(16,000)	-
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(18,750)</b>	<b>(66,774)</b>	<b>(85,524)</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest income	455	771	1,226	46
Investments and restricted assets	5,429	66,182	71,611	11
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>5,884</b>	<b>66,953</b>	<b>72,837</b>	<b>57</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(17,640)</b>	<b>29,397</b>	<b>11,757</b>	<b>976</b>
Cash and cash equivalents, beginning of year	50,360	39,197	89,557	4,549
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 32,720</b>	<b>\$ 68,594</b>	<b>\$ 101,314</b>	<b>\$ 5,525</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ (16,702)	\$ (24,285)	\$ (40,987)	\$ (1,011)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	11,928	50,643	62,571	1,930
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	-	2,538	2,538	-
Increase (decrease) in water deposits payable	-	363	363	-
Increase (decrease) in accrued interest	-	(41)	(41)	-
<b>NET ADJUSTMENTS</b>	<b>11,928</b>	<b>53,503</b>	<b>65,431</b>	<b>1,930</b>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (4,774)</b>	<b>\$ 29,218</b>	<b>\$ 24,444</b>	<b>\$ 919</b>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CHATHAM, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements of the Village have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies established in GAAP and used by the Village are described below.

**(1) REPORTING ENTITY**

The Village's financial statements present the Village (the primary government). In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the Village may or may not be financially accountable and, as such, be includable within the Village's financial statements.

**(2) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS:**

The Village's basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Village's legislative, public works, public safety, community and economic development, recreation and culture and general services and administration are classified as governmental activities. The Village's Water System and Sewer System is classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Village's functions and business-type activities. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue.

The government-wide focus is more on the sustainability of the Village as an entity and the change in the Village's net assets resulting from the current year's activities. For the most part, the effect of Interfund activities has been removed from these statements.

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(3) BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS:**

The financial transactions of the Village are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Village:

***Governmental Funds:***

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Village:

***General Fund*** – General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

***Special Revenue***– Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

***Proprietary Funds***

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the Village:

- ***Enterprise Funds*** – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
- ***Internal Service Funds*** – Internal Service Funds are used to finance, administer and account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit or to other governmental units on a cost reimbursement basis.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The Village reports the following major governmental funds:

- The **General Fund** is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- The **Major Street Fund** is used to account for the maintenance and construction of a major street system.
- The **Local Street Fund** is used to account for the maintenance and construction of a local street system.

The Village reports the following major proprietary funds:

- The **Sewer Fund** is used to account for the revenues and expenses for the operation of a sewer system.
- The **Water Fund** is used to account for the revenues and expenses for the operation of a water system.

The Village's internal service funds are presented in the proprietary funds financial statements. Because the principal users of the internal services are the Village's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity (general government, public works, etc.)

### (4) BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

#### **Accrual**

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

All enterprise funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

#### **Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(5) FINANCIAL STATEMENT AMOUNTS**

**Budgets and Budgetary Accounting** – The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Village President submits to the Village Board of Trustees a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Numerous opportunities exist for public comment during the budget process including at least two formal public hearings conducted at the Village Hall to obtain taxpayer comment.
- c. Pursuant to statute, prior to June 30 of each year the budget for the ensuing year is legally enacted through adoption of an Annual General Appropriations Act.
- d. The general statute governing Village budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act. In addition to the provisions of the said Act and Board policy, general statements concerning the Board's intent regarding the administration of each year's budget are set out in the Annual General Appropriations Act. The Village Board of Trustees, through policy action, specifically directs the Supervisor not to authorize or participate in any expenditure of funds except as authorized by the Annual General Appropriations Act. The Board recognized that, in addition to possible Board sanctions for willful disregard of this policy, State statutes provide for civil liability for violations of the Annual General Appropriations Act.
- e. The Supervisor is authorized by means of Village policy to make certain transfers:
  1. The Supervisor receives a request for a budget transfer from the head of the department whose budget is to be affected. Such request must specify the necessity for the transfer, the account name and/or groups(s) and amount to be affected within prescribed limitations. Transfers in excess of those limitations must be approved by the Board of Trustees.
  2. The following considerations must be reviewed in determination of transfer approvals.
    - a. Are the transfers consistent with the intent of the Board of Trustees in adopting the annual budget?
    - b. Will the transfer maintain the financial integrity of the Village?  
Will the transfer provide a reasonable solution to the Departmental operating problem?

Considering the above, the Supervisor will then decide whether or not the transfer should be made.

Supplemental appropriations are submitted to and reviewed by the Supervisor and submitted to the Village Board of Trustees for their review and approval. If approved, they are implemented by the Supervisor through a budget revision.



## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- f. The Village adopts its Annual Budget on a departmental basis. At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary controls exist at the most detailed level adopted by the Board of Trustees, i.e., department for analytical purposes. A detailed line item breakdown is prepared for each program. Accounting, i.e., classification control, resides at the line item detail level.
- g. Budgets for the General Funds were adopted in substance on an accrual basis which is consistent with generally accepted accounting principles. Budgeted amounts as reported in the Financial Report are as originally adopted and/or amended by the Village Board of Trustees.

**Cash Equivalents and Investments** - For the purposes of balance sheet classification and the statement of cash flows, cash and equivalents consist of demand deposits, cash in savings, money market accounts and short-term certificates of deposit with original maturity of three months or less. Investments are carried at fair value.

**Capital Assets** – Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements and proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Land improvements	15 years
Building, structures and improvements	10-40 years
Equipment	5 years
Water and Sewage System	20-50 years
Vehicles	5 years
Infrastructure	20-50 years

**Long-Term Liabilities:** In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities or proprietary fund type statement of net assets. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

**Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

**Property Taxes** – Property taxes are levied as of December 1 of each year and are due by the last day of the following March. The taxes are collected by the local unit and periodically remitted to the third parties during the collection period.

**Interfund Activity** – Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a result of the reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

**Implementation of New Accounting Principles** – In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB No. 34). Certain of the significant changes in the Statement include the following:

- For the first time the financial statements include:
  - A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operation's.
  - Financial statements prepared using full accrual accounting for all of the Village's activities, including infrastructure (e.g. streets, bridges and sidewalks)
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). There was no current year addition to infrastructure to be reported in these financial statements.

## NOTE B – DEPOSITS AND INVESTMENTS:

The composition of cash and investments as reported in the combined balance sheet is presented below:

	Primary Government
Cash and Investments:	
Unrestricted	\$280,853
Composition of Balances:	
Cash in banks	253,577
Certificates of Deposit	27,226
Imprested cash	50
TOTAL	<u>\$280,853</u>

Act 196, PA 1997, authorized the Village to deposit and invest in:

- a. Bonds, securities, and other direct obligations of the United States or its agencies.

# **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the National credit union administration that are eligible to be depository of surplus money belonging to the State under Section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146).
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase.
- d. United States government or Federal agency obligation repurchase agreements.
- e. Banker's acceptance of United States banks.
- f. Mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.
- g. Obligation of the State of Michigan or its political subdivisions which are rated investment grade.
- h. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

## Deposits

At year-end, the carrying amount of the Village's deposits was \$253,577 and the bank balance was \$251,185. Of the bank balance, \$195,941 was covered by federal depository insurance according to FDIC regulations.

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the Village and specific funds. They are recorded in Village records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

## **NOTE C – INTERFUND TRANSFERS IN AND TRANSFERS OUT:**

The Interfund transfers for the year are as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Sewer Fund	<u>\$ 20,000</u>	Water Fund	<u>\$ 20,000</u>

## **NOTE D – CAPITAL ASSETS:**

A summary of the capital assets of the Governmental Activities is as follows:

	<u>Balance at July 1, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2004</u>
GOVERNMENTAL ACTIVITIES:				
Land	<u>\$ 1,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000</u>
Total Capital Assets, not being depreciated	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Buildings and improvements	83,000	-	-	83,000
Furniture and equipment	<u>50,378</u>	<u>-</u>	<u>-</u>	<u>50,378</u>
Total Capital Assets, being depreciated	<u>133,278</u>	<u>-</u>	<u>-</u>	<u>133,278</u>
Less Accumulated Depreciation:				
Building and improvements	(10,375)	(2,075)	-	(12,450)
Furniture and equipment	<u>(38,808)</u>	<u>(1,930)</u>	<u>-</u>	<u>(36,878)</u>
Total Accumulated Depreciation	<u>49,183</u>	<u>(4,005)</u>	<u>-</u>	<u>(49,323)</u>
Governmental Activities Capital Assets, Net	<u>\$ 89,055</u>	<u>\$(4,005)</u>	<u>\$ -</u>	<u>\$ 85,050</u>

**NOTE D – CAPITAL ASSETS (Continued):**

Depreciation expenses for the governmental activities were charged to the following functions and activities of the primary government:

General and Administrative	\$2,075
Public Works	<u>1,930</u>
Total	<u>\$4,005</u>

A summary of changes in business-type activities capital assets is as follows:

	Balance at July 1, 2003	Additions	Disposals	Balance at June 30, 2004
<b>BUSINESS-TYPE ACTIVITIES:</b>				
Land	\$ 6,225	\$ -	\$ -	\$ 6,225
Total Capital Assets, not being depreciated	<u>6,225</u>	<u>-</u>	<u>-</u>	<u>6,225</u>
Buildings and improvements	2,258,365	57,450	-	2,315,815
Equipment	<u>7,320</u>	<u>-</u>	<u>-</u>	<u>7,320</u>
Total Capital Assets, being depreciated	<u>2,265,685</u>	<u>57,450</u>	<u>-</u>	<u>2,323,135</u>
Less Accumulated Depreciation:				
Buildings and improvements	(897,686)	(62,225)	-	(959,911)
Equipment	<u>(1,464)</u>	<u>(366)</u>	<u>-</u>	<u>(1,830)</u>
Total Accumulated Depreciation	<u>(899,150)</u>			
Business-Type Capital Assets, Net	<u>\$1,372,760</u>	<u>\$(5,121)</u>	<u>\$ -</u>	<u>\$1,367,619</u>

Depreciation expense for the business-type activities was charged to the following functions and activities of the primary government:

Business-Type Activities:	
Sewer Fund	\$11,938
Water Fund	<u>50,643</u>
Total Depreciation Expense – Business-Type Activities	<u>\$62,571</u>

**NOTE F – LONG-TERM DEBT:**

Junior Lien Water System Bond  
June 30, 2004

	August 1	February1		Total
	Interest	Interest	Principal	
2004-2005	\$5,972	\$5,972	\$2,000	\$ 13,944
2005-2006	5,910	5,910	2,000	13,820
2006-2007	5,849	5,849	2,000	13,698
2007-2008	5,788	5,788	4,000	15,576
2008-2009	5,666	5,666	5,000	16,332
2009-2010	5,513	5,513	5,000	16,026
2010-2011	5,359	5,359	5,000	15,718
2011-2012	5,206	5,206	6,000	16,412
2012-2013	5,023	5,023	6,000	16,046
2013-2014	4,839	4,839	7,000	16,678
2014-2015	4,624	4,624	7,000	16,248
2015-2016	4,410	4,410	7,000	15,820
2016-2017	4,196	4,196	8,000	16,392
2017-2018	3,951	3,951	8,000	15,902

**NOTE F – LONG-TERM DEBT (Continued):**

	August 1	February 1		
	<u>Interest</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2018-2019	\$ 3,706	\$ 3,706	\$ 9,000	\$ 16,412
2019-2020	3,430	3,430	10,000	16,860
2020-2021	3,124	3,124	10,000	16,248
2021-2022	2,818	2,818	11,000	16,636
2022-2023	2,481	2,481	11,000	15,962
2023-2024	2,144	2,144	12,000	16,288
2024-2025	1,776	1,776	13,000	16,552
2025-2026	1,378	1,378	14,000	16,756
2026-2027	949	949	15,000	16,898
2027-2028	490	490	16,000	16,980
<b>TOTALS</b>	<b><u>\$ 94,602</u></b>	<b><u>\$ 94,602</u></b>	<b><u>\$ 195,000</u></b>	<b><u>\$ 384,204</u></b>

The Bond was originally issued for \$217,000 on February 1, 1988. Bond Payments are due Semi-annually, February 1 (principal plus interest) and August 1 (interest), with an interest rate of 6.125%

	<u>July 1, 2003</u>	<u>Additions</u>	<u>Subtractions</u>	<u>June 30, 2004</u>
<b>Governmental Activities:</b>				
Building Loan – (Paid Off on 7/31/04)	<u>\$9,034</u>	<u>\$ -</u>	<u>\$ 7,591</u>	<u>\$1,443</u>
Total Governmental Activities	<u>\$9,034</u>	<u>\$ -</u>	<u>\$ 7,591</u>	<u>\$1,443</u>
<b>Business-Type Activities:</b>				
Junior Lien Water Revenue Bond	<u>\$197,000</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$195,000</u>
Revenue Bond 1991	<u>9,000</u>	<u>-</u>	<u>9,000</u>	<u>-</u>
Revenue Bond 1971	<u>6,000</u>	<u>-</u>	<u>5,000</u>	<u>-</u>
Total Business-Type Activities	<u>211,000</u>	<u>-</u>	<u>16,000</u>	<u>195,000</u>
<b>TOTAL PRIMARY GOVERNMENT LONG-TERM DEBT</b>	<b><u>\$220,034</u></b>	<b><u>\$ -</u></b>	<b><u>\$23,591</u></b>	<b><u>\$196,443</u></b>

**NOTE G – RESERVED AND DESIGNATED NET ASSETS:**

The Water Fund has reserved net assets totaling \$44,190 which represents the balance available to pay down debt.

**NOTE H – PROPERTY TAXES:**

The Local Governmental Unit property tax is levied on each December 1<sup>st</sup> on the taxable valuation of property (as defined by State statutes) located in the Local Governmental Unit as of the preceding December 31<sup>st</sup>.

Although the Local Governmental Unit 2003 ad valorem tax is levied and collectible on December 1, 2003, it is the Local Governmental Unit's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60) days.

The 2003 taxable valuation of the Local Governmental Unit totaled \$3,849,381, on which ad valorem taxes levied consisted of 1.0000 mills for the Local Governmental Unit operation purposes. These amounts are recognized in the General Fund financial statements as revenue.

## NOTE K – CONTINGENT LIABILITIES:

Risk Management - The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village has obtained commercial insurance to handle its risk of loss.

## NOTE L – EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

The Village has variances with regards to expenditures over appropriations in their funds as of June 30, 2004.

	<u>Budget</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
General Fund:			
Elections	\$750	\$1,060	\$310
Manager	2,200	3,000	800
Clerk	3,500	3,515	15
Treasurer	3,500	4,258	758
Streetlights	4,500	4,887	387
Other Expenditures	300	1,053	753
Debt Service	8,100	8,130	30
Local Road:			
Streets	5,380	11,259	5,879
Liquor Law:			
Liquor Law Enforcement	-	632	632

REQUIRED SUPPLEMENTAL  
FINANCIAL INFORMATION

Village of Chatham, Michigan

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final	GAAP	Final Budget
			Basis	Positive
				(Negative)
<b>REVENUES:</b>				
Taxes	\$ 16,000	\$ 16,000	\$ 18,569	\$ 2,569
State Sources	22,611	22,611	28,007	5,396
Interest	-	-	230	230
Other Revenues	3,039	3,039	192	(2,847)
<b>TOTAL REVENUES</b>	<b>41,650</b>	<b>41,650</b>	<b>46,998</b>	<b>5,348</b>
<b>EXPENDITURES:</b>				
Legislative	2,500	2,500	2,275	225
Elections	750	750	1,060	(310)
General Services and Administration	25,500	25,500	26,459	(959)
Public Works	4,500	4,500	4,887	(387)
Other	300	300	1,053	(753)
Debt service	8,100	8,100	8,130	(30)
<b>TOTAL EXPENDITURES</b>	<b>41,650</b>	<b>41,650</b>	<b>43,864</b>	<b>(2,214)</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>3,134</b>	<b>3,134</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>3,134</b>	<b>3,134</b>
Fund balance, beginning of year, as restated	28,240	28,240	28,240	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 28,240</b>	<b>\$ 28,240</b>	<b>\$ 31,374</b>	<b>\$ 3,134</b>

The accompanying notes are an integral part of these financial statements.



Village of Chatham, Michigan

MAJOR ROAD FUND

BUDGETARY COMPARISON SCHEDULE

For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
State Sources	\$ 101,000	\$ 101,000	\$ 26,748	\$ (74,252)
Interest	-	-	945	945
Other Revenue	70,374	70,374	-	(70,374)
<b>TOTAL REVENUES</b>	<b>171,374</b>	<b>171,374</b>	<b>27,693</b>	<b>(143,681)</b>
<b>EXPENDITURES:</b>				
Public Works	7,374	7,374	4,741	2,633
Capital Outlay	164,000	164,000	13,841	150,159
<b>TOTAL EXPENDITURES</b>	<b>171,374</b>	<b>171,374</b>	<b>18,582</b>	<b>152,792</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>9,111</b>	<b>9,111</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>9,111</b>	<b>9,111</b>
Fund balance, beginning of year, as restated	99,968	99,968	99,968	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 99,968</b>	<b>\$ 99,968</b>	<b>\$ 109,079</b>	<b>\$ 9,111</b>

Village of Chatham, Michigan

LOCAL ROAD FUND

BUDGETARY COMPARISON SCHEDULE

For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final	GAAP	Final Budget
			Basis	Positive
				(Negative)
<b>REVENUES:</b>				
State sources	\$ 12,000	\$ 12,000	\$ 16,750	\$ 4,750
Interest	-	-	334	334
Other Revenue	23,380	23,380	-	(23,380)
<b>TOTAL REVENUES</b>	<b>35,380</b>	<b>35,380</b>	<b>17,084</b>	<b>(18,296)</b>
<b>EXPENDITURES:</b>				
Public Works	5,380	5,380	11,259	(5,879)
Capital Outlay	30,000	30,000	-	30,000
<b>TOTAL EXPENDITURES</b>	<b>35,380</b>	<b>35,380</b>	<b>11,259</b>	<b>24,121</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>5,825</b>	<b>5,825</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>5,825</b>	<b>5,825</b>
Fund balance, beginning of year, as restated	42,086	42,086	42,086	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 42,086</b>	<b>\$ 42,086</b>	<b>\$ 47,911</b>	<b>\$ 5,825</b>

Other Supplemental  
Information

**Village of Chatham, Michigan**  
**MAJOR GOVERNMENTAL FUNDS**  
**GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>			
Taxes:			
Current levy	\$ 13,000	\$ 15,748	\$ 2,748
Payment in lieu of taxes	3,000	2,821	(179)
Total Taxes	<u>16,000</u>	<u>18,569</u>	<u>2,569</u>
State Sources:			
State revenue sharing	22,611	28,007	5,396
Total State Sources	<u>22,611</u>	<u>28,007</u>	<u>5,396</u>
Interest			
Interest	-	230	230
Total Interest	<u>-</u>	<u>230</u>	<u>230</u>
Other Revenues:			
Miscellaneous other	3,039	192	(2,847)
Total Other Revenues	<u>3,039</u>	<u>192</u>	<u>(2,847)</u>
<b>TOTAL REVENUES</b>	<u>41,650</u>	<u>46,998</u>	<u>5,348</u>
<b>EXPENDITURES:</b>			
LEGISLATIVE:			
Township Board:			
Personnel services	2,500	2,275	225
Supplies	-	-	-
Other services and charges	-	-	-
TOTAL LEGISLATIVE	<u>2,500</u>	<u>2,275</u>	<u>225</u>
ELECTIONS:			
Personnel services	750	370	380
Supplies	-	690	(690)
Other services and charges	-	-	-
TOTAL ELECTIONS	<u>750</u>	<u>1,060</u>	<u>(310)</u>

**Village of Chatham, Michigan**  
**MAJOR GOVERNMENTAL FUNDS**  
**GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
<b>GENERAL SERVICES AND ADMINISTRATION:</b>			
Supervisor:			
Personnel services	\$ 2,200	\$ 3,000	\$ (800)
Supplies	-	-	-
Other services and charges	-	-	-
Total Supervisor	<u>2,200</u>	<u>3,000</u>	<u>(800)</u>
Clerk:			
Personnel services	3,500	3,515	(15)
Supplies	-	-	-
Other services and charges	-	-	-
Total Clerk	<u>3,500</u>	<u>3,515</u>	<u>(15)</u>
Treasurer:			
Personnel services	3,500	3,930	(430)
Supplies	-	328	(328)
Other services and charges	-	-	-
Total Treasurer	<u>3,500</u>	<u>4,258</u>	<u>(758)</u>
Township Hall and Grounds:			
Personnel services	2,800	1,040	1,760
Supplies	1,500	746	754
Other services and charges	12,000	13,900	(1,900)
Total Township Hall and Grounds	<u>16,300</u>	<u>15,686</u>	<u>614</u>
TOTAL GENERAL SERVICES AND ADMINISTRATION	<u>25,500</u>	<u>26,459</u>	<u>(959)</u>
<b>PUBLIC WORKS:</b>			
Streetlights:			
Other services and charges	4,500	4,887	(387)
TOTAL PUBLIC WORKS	<u>4,500</u>	<u>4,887</u>	<u>(387)</u>

**Village of Chatham, Michigan**  
**MAJOR GOVERNMENTAL FUNDS**  
**GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
<b>OTHER FUNCTIONS:</b>			
Payroll taxes	\$ 300	\$ 1,053	\$ (753)
<b>TOTAL OTHER FUNCTIONS</b>	<b>300</b>	<b>1,053</b>	<b>(753)</b>
<b>DEBT SERVICE:</b>			
Debt - Principal	7,200	7,162	38
Debt - Interest	900	968	(68)
<b>TOTAL DEBT SERVICE</b>	<b>8,100</b>	<b>8,130</b>	<b>(30)</b>
<b>TOTAL EXPENDITURES</b>	<b>41,650</b>	<b>43,864</b>	<b>(2,214)</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>3,134</b>	<b>3,134</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating Transfers (Out)	-	-	-
Operating Transfers (Out)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>3,134</b>	<b>3,134</b>
Fund balance, beginning of year	28,240	28,240	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 28,240</b>	<b>\$ 31,374</b>	<b>\$ 3,134</b>

**Village of Chatham, Michigan**  
**MAJOR GOVERNMENTAL FUNDS**  
**MAJOR ROAD FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>			
State Revenue:			
Michigan transportation funds	\$ 21,000	\$ 26,748	\$ 5,748
Other state grants	80,000	-	(80,000)
Total State Revenue	<u>101,000</u>	<u>26,748</u>	<u>(74,252)</u>
Interest:			
Interest income - investments	-	945	945
Total Interest	<u>-</u>	<u>945</u>	<u>945</u>
Other Revenue:			
Other Revenue	70,374	-	(70,374)
Total Other Revenue	<u>70,374</u>	<u>-</u>	<u>(70,374)</u>
<b>TOTAL REVENUES</b>	<u>171,374</u>	<u>27,693</u>	<u>(143,681)</u>
<b>EXPENDITURES:</b>			
Public Works:			
Streets:			
Personnel services	1,704	2,142	(438)
Supplies	100	-	100
Other services and charges	5,570	2,599	2,971
Total Public Works	<u>7,374</u>	<u>4,741</u>	<u>2,633</u>
CAPITAL OUTLAY:			
Capital Outlay	164,000	13,841	150,159
Total Capital Outlay	<u>164,000</u>	<u>13,841</u>	<u>150,159</u>
<b>TOTAL EXPENDITURES</b>	<u>171,374</u>	<u>18,582</u>	<u>152,792</u>
<b>EXCESS OF REVENUES OVER</b>			
<b>(UNDER) EXPENDITURES</b>	<u>-</u>	<u>9,111</u>	<u>9,111</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating Transfers In	-	-	-
Operating Transfers (Out)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN FUND BALANCE</b>	<u>-</u>	<u>9,111</u>	<u>9,111</u>
Fund balance, beginning of year	99,968	99,968	-
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 99,968</u>	<u>\$ 109,079</u>	<u>\$ 9,111</u>

**Village of Chatham, Michigan**  
**MAJOR GOVERNMENTAL FUNDS**  
**LOCAL ROAD FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>			
State Revenue:			
Michigan transportation funds	\$ 12,000	\$ 14,905	\$ 2,905
Metro authority payment	-	1,845	1,845
Total State Revenue	12,000	16,750	4,750
Interest:			
Interest income - investments	-	334	334
Total Interest	-	334	334
Other Revenue:			
Other Revenue	23,380	-	(23,380)
Total Other Revenues	23,380	-	(23,380)
<b>TOTAL REVENUES</b>	<b>35,380</b>	<b>17,084</b>	<b>(18,296)</b>
<b>EXPENDITURES:</b>			
Public Works			
Streets:			
Personnel Services	1,710	2,579	(869)
Supplies	100	-	100
Other Services & Charges	3,570	8,680	(5,110)
Total Public Works	5,380	11,259	(5,879)
CAPITAL OUTLAY:			
Capital Outlay	30,000	-	30,000
Total Capital Outlay	30,000	-	30,000
<b>TOTAL EXPENDITURES</b>	<b>35,380</b>	<b>11,259</b>	<b>24,121</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>5,825</b>	<b>5,825</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating Transfers In	-	-	-
Operating Transfers (Out)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>5,825</b>	<b>5,825</b>
Fund balance, beginning of year	42,086	42,086	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 42,086</b>	<b>\$ 47,911</b>	<b>\$ 5,825</b>



**Village of Chatham, Michigan**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**SPECIAL REVENUE**  
**LIQUOR LAW FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2004

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>			
State shared revenues	\$ -	\$ 632	\$ 632
<b>TOTAL REVENUES</b>	<b>-</b>	<b>632</b>	<b>632</b>
<b>EXPENDITURES:</b>			
Public Safety:			
Liquor Law Enforcement			
Personnel services	-	-	-
Supplies	-	-	-
Other services and charges	-	632	(632)
Capital outlay	-	-	-
<b>Total Public Safety</b>	<b>-</b>	<b>632</b>	<b>(632)</b>
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>632</b>	<b>(632)</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers in	-	-	-
Operating transfers (out)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGES IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund balance, beginning of year	-	-	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

## Compliance Supplements



# ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

## PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN  
ESCANABA  
IRON MOUNTAIN  
KINROSS  
MARQUETTE

WISCONSIN  
GREEN BAY  
MILWAUKEE

### REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable President and Village Board of Trustees  
Village of Chatham, Michigan  
P.O. Box 167  
Chatham, Michigan 49816

We have audited the governmental activities, business-type activities, major funds, and remaining fund information, which collectively comprise the basic financial statements of the Village of Chatham, Michigan as of and for the year ended June 30, 2004, and have issued our report thereon dated September 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. These instances are reported in a separate letter to management dated September 24, 2004.

#### Internal Control over Financial Reporting

In planning and performing our audit, we considered Village of Chatham's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk of material misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, and Village Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company, P.L.C.*  
Certified Public Accountants

September 24, 2004



# ANDERSON, TACKMAN & COMPANY, P.L.C.

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### *Village of Chatham, Michigan Report to Management Letter For the Year Ended June 30, 2004*

To the Honorable Supervisor and Members of  
The Village Board  
Village of Chatham, Michigan  
Chatham, MI 49816

In planning and performing our audit of the financial statements of the Village of Chatham for the year ended *June 30, 2004*, we considered its internal accounting control structure for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of the internal control structure that, in our judgment, could affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

#### **INSTANCES OF NON-COMPLIANCE**

##### **Uniform Budgeting and Accounting Act (P.A. 621)**

The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The purpose of P.A. 621 is to require that all local units of government adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provisions of P.A. 621 are as follows:

1. Local Units of government must adopt a budget.
2. The budget, including accrued deficits and available un-appropriated surpluses, must be balanced.
3. The budget must be amended when necessary.
4. Debt shall not be entered into unless the debt is permitted by law.
5. Expenditures shall not be incurred in excess of the amount appropriated.
6. Expenditures shall not be made unless authorized in the budget.
7. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedures shall be filed with the State Treasurer and reported to the Attorney General.

To the Honorable Supervisor and Members of  
The Village Board  
Village of Chatham, Michigan

The Village was found to be in violation of the legal and contractual provisions of Public Act 621 in certain individual funds as enumerated upon in Footnotes.

\* \* \* \* \*

This report is intended solely for the information and use of the Village's management, and others within the Village Administration.

We appreciate and would like to thank the Village's staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

September 24, 2004



# ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

## PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

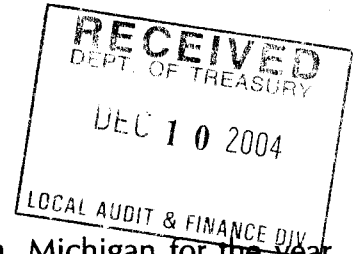
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September 24, 2004

To the Honorable Supervisor and Village Board  
Village of Chatham  
Chatham, Michigan 49816



We have audited the financial statements of the Village of Chatham, Michigan for the year ended June 30, 2004, and have issued our report thereon dated September 24, 2004. Professional standards require that we make provide you with the following information related to our audit.

### **Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Village of Chatham, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Village of Chatham, Michigan's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Village of Chatham, Michigan are described in Footnote A to the financial statements. As described in the Footnote A to the financial statements, the Village of Chatham, Michigan changed accounting policies related to new reporting model by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 34, in fiscal year 2004. Accordingly, the cumulative effect of the accounting change as of the beginning of the

To the Honorable Supervisor and Village Board  
Village of Chatham, Michigan

year is reported in the footnotes to the financial statements. We noted no transactions entered into by the Village of Chatham, Michigan during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The Village of Chatham, Michigan's estimates are relatively insignificant in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village of Chatham, Michigan's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Village of Chatham, Michigan, either individually or in the aggregate, indicate matters that could have a significant effect on the Village of Chatham, Michigan's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Honorable Supervisor and Village Board  
Village of Chatham, Michigan

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Chatham, Michigan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in the performance of our audit.

This information is intended solely for the use of the Village Board and management of the Village of Chatham, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants